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INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RHMFISS/HQ USAFRICOM STUTTGART GE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 LUSAKA 000749

SIPDIS

STATE FOR AF/S JNAMDE

E.O. 12958: DECL: 12/31/2019

TAGS: [ECON](#) [EAID](#) [EFIN](#) [PGOV](#) [KCOR](#) [ZA](#)

SUBJECT: ZAMBIA BUDGET: HAPPY TALK AND HORSE FEATHERS

REF: A. LUSAKA 44

[1](#)B. LUSAKA 367

Classified By: Ambassador Donald E. Booth for reasons 1.4 (b,d)

[1](#)1. (SBU) SUMMARY: Zambian Minister of Finance Situmbeko Musokotwane presented the Zambia government's (GRZ) 2010 budget to Parliament October 9 three months earlier than the traditional speech (ref A). The proposed budget's themes were similar to last year's with a slight change from "Embracing" to "Enhancing" Growth Through Competitiveness and Diversification. The draft budget proposes that the GRZ spend Kwacha (ZMK) 16.72 trillion (about USD 3.4 billion) in 2010 and assumes that by the end of 2009 Zambia will average 4.3 percent growth in real GDP and reduce inflation to 12 percent. Actually, the budget revisited many hackneyed proposals, including increased investment in infrastructure and agriculture in order to diversify Zambia's economy away from its dependency on copper. In practice it allocated precious funds to opaque defense programs, to police, to market-distorting agriculture subsidies, and to pet programs at the expense of urgent health and development needs.

[1](#)2. (SBU) Musokotwane's reaffirmation of the GRZ' commitment to direct more resources to "programs that are aimed at stimulating growth and diversifying the economy" were mere lipservice. He did not explain how large increases in spending on defense and public order (police) would achieve the goals of economic diversification and growth. Moreover, he noted that the draft budget cut "lower priority expenditures." This apparently includes the "unhealthy choice" of cutting spending on health -- a key social service -- by ZMK 460.9 billion (USD 92.2 million), which he blamed on suspended support from the Cooperating Partners (CP). The GRZ "beefed up" spending on agriculture and livestock -- which it considers growth drivers -- but still dedicated 45.6 percent of this spending on unproductive fertilizer and farm subsidy programs. The budget includes funding for several high-profile infrastructure projects that will put the construction industry to work; however, their long-term contribution to growth depends on whether other sectors such as tourism can capitalize on them. Musokotwane concluded his speech by entreating government critics (ostensibly opposition parliamentarians and outspoken NGOs) to stop imparting the youth with "negative thoughts." He encouraged them to stop talking and deliver" -- trying to inject an uninspiring budget speech with a small message of hope. Unfortunately, the GRZ' proposed budget, and its always problematic execution, are not likely to address its stated priorities any more than the previous one. END SUMMARY.

BUDGET TIMELIER BUT JUST AS IRRELEVANT

[1](#)3. (U) Zambian Minister of Finance Situmbeko Musokotwane

presented the Zambian 2010 budget to parliament October 9, departing from the GRZ's previous requirement to present the budget in January. The new budget timeline gives parliament ample time to review and approve the budget before the year end, and gives the GRZ a full 12 months to execute it (Note: The GRZ fiscal year is January 1 - December 31), compared to the nine-month execution period available when the budget was approved in March (ref A). The GRZ heeded the advice of Cooperating Partners (CP) to improve the budgetary process, an important aspect of the government's stated strategy to promote economic activity and short- and long-term growth through capital expenditures.

¶4. (U) The draft budget -- still subject to parliamentary approval -- proposes that the GRZ spend Kwacha (KMZ) 16.72 trillion (about USD 3.4 billion at an exchange rate of ZMK 5,000 = 1 USD) in 2010. The budget represents 22.5 percent of Zambia's GDP, compared with 25.4 percent in the previous budget, as well as a 9.4 percent increase in government spending over 2009. The budget assumes that by the end of 2009 Zambia will average 4.3 percent growth in real GDP (a downward revision from five percent projected in the 2009 budget), reduce inflation (from 16.6 in 2008 to ten percent in 2009 and eight percent in 2010), and increase domestic debt (from 1.8 percent of real GDP in 2009 to three percent in 2010). The GRZ will finance 2010 spending using the following revenue sources:

	KMZ (Tril)	USD (Bil)	%	% Chg
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Domestic revenues	12,107.1	2.42	72.4	2.7
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Domestic borrowing	1,487.0	0.29	8.9	1.9
Foreign grants/loans	3,123.7	0.64	18.7	- 4.6
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Total Budget	16,717.8	3.43	100.0	

¶5. (U) The following chart compares the GRZ's 2008-10 budgets and changing trends in its budget priorities:

	2008 ZMK (Tril.)	%	2009 ZMK (Tril.)	%	2010 ZMK (Tril.)	%
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Public Services	4,514.2	32.8	4,865.5	31.8	5,369.0	32.1
Defense	981.3	7.2	1,068.0	7.0	1,326.0	7.9
Order/Safety	581.8	4.2	610.7	4.2	771.5	4.6
Econ. Affairs	2,300.8	16.7	3,021.4	19.8	3,217.8	19.2
Education	2,118.5	15.4	2,628.0	17.2	3,320.9	19.9
Env. Protection	95.7	0.7	117.3	0.8	148.5	0.9
Health	1,586.6	11.5	1,823.4	11.9	1,362.5	8.2
Housing/Comm.	830.6	6.0	587.3	3.8	659.1	3.9
Rec/Culture	174.1	1.3	183.2	1.2	97.5	0.6
Soc Protection	577.7	4.2	374.2	2.5	445.0	2.7
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Total Budget	13,761	100	15,279	100	16,717	

FROM "EMBRACING" TO "ENHANCING" GROWTH

¶6. (C) Musokotwane reaffirmed the GRZ' commitment to improve Zambia's economy by improving competition and diversifying the economy. Although he paid lipservice to the GRZ' focus on stimulating growth, this year's budget is not likely to further the government's economic objectives because the GRZ continues to spend most of its budget on entitlement schemes, salaries and benefits, public order, and defense against an unknown threat. The GRZ increased spending on defense (by 12.9 percent), public order and safety (by 9.5 percent), and education (by 15.7 percent due almost entirely to a 15 percent wage increase agreed to in June 2009). Musokotwane did not clarify how large increases in spending in these budget categories would contribute to economic growth, competitiveness, or diversification, or why the GRZ considers

them high priorities. The GRZ plans to bolster public order and safety allocating more resources to the police force, specifically for building police stations and court houses, and rehabilitating a penitentiary. The GRZ did not offer details on why it planned to increase defense spending by ZMK 258 billion (USD 51.6 million), although it is widely believed that much of the corruption in the GRZ is hidden in the defense budget, which is "black" for "national security reasons." Proposed increases in education spending are driven largely by the GRZ' commitment to pay higher teacher salaries. The pace of new teacher recruitment and construction of schools and technical colleges is below that of 2009.

¶7. (U) Musokotwane noted that the draft budget "will entail constraining (unspecified) lower priority expenditures and directing more resources to programs that are aimed at stimulating growth and diversifying the economy." The GRZ decreased spending as a proportion of the budget in some categories, including health (by 31.1 percent), recreation and culture (by 50 percent), and economic affairs (by three percent). The "economic affairs" portion of the budget includes spending on general economic, commercial, and labor affairs; agriculture, forestry and fishing; fuel and energy; mining; transport and roads; communication; and tourism. The agriculture portion of the economic affairs budget increased (see para. 9); the remaining subcategories decreased.

UNHEALTHY CHOICES

¶8. (SBU) The GRZ will cut health spending by ZMK 460.9 billion (USD 92.2 million) in the 2010 budget. The Minister blamed the decrease on suspended 2009 support from the Cooperating Partners (CP). He noted that the GRZ' domestic allocation for health actually increased 18.6 percent to offset part but not all of the CP funding gap. The CPs suspended temporarily their support for the GRZ' health budget in the wake of the Ministry of Health corruption scandal in which dozens of GRZ officials are accused of embezzling no less than USD 10 million (ref B). The GRZ has taken steps to investigate suspects and clean up the Ministry of Health, but the CPs have yet to agree to restore full funding for health, arguing that not all conditions for resumption have been met.

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SOWING GOOD MONEY AFTER BAD

¶9. (SBU) Boasting that "beef will be our next copper," the GRZ will boost spending on agriculture and livestock to ZMK 1.14 trillion (about USD 228 million) in 2010 from ZMK 1.01 trillion (USD 219 million) in 2009. However, the GRZ will continue expanding support for the renamed Farmer Input Support Program (FISP), a fertilizer subsidy program, and the Food Reserve Agency (FRA). These market distorting GRZ interventions have failed to bring either national food security or raise productivity yet will account for ZMK 530 billion (USD 106 million), or 45.6 percent of the agriculture budget.

SOME BACKBONE ON TOURISM

¶10. (SBU) On the other hand, the budget includes over ZMK 2.26 trillion (USD 453.6 million) in funding for several high-profile infrastructure projects related to the North-South Corridor Program, a cross-border infrastructure initiative, and President Rupiah Banda's pet tourism sector initiative, the Northern Circuit tourism project in remote Northern and Luapula provinces. In addition, the GRZ

allocates funding for construction projects within other budget categories, including housing (housing and community amenities), schools (education), and rural electrification (economic affairs). The GRZ acknowledged that it welcomed partnering with private investment to compensate for revenue shortfalls in construction and infrastructure. Musokotwane expressed optimism that these projects would put the construction industry to work. However, their long-term contribution to growth depends on whether other sectors such as tourism can capitalize on them.

GOVERNMENT PATS ITSELF ON THE BACK

¶11. (SBU) Taking undue credit for beneficial weather, the rebound in commodity prices and Zambia's shallow and relatively insulated financial sector, Musokotwane patted himself and his ruling Movement for Multiparty Democracy (MMD) colleagues on the back for their economic stewardship and decisive response to the recession, particularly their efforts to preserve jobs and simultaneously safeguard mining operations. He noted that Zambia's current account deficit is expected to narrow in 2010 to USD 484 million from USD 1.05 billion, and foreign reserves increased to USD 1.79 million from USD 1.09 million at the end of 2008 as a result of increased access to IMF Poverty Reduction and Growth Facility (PRGF) credits (USD 160 million) and the one-time IMF allocation of Special Drawing Rights (SDRs) (USD 627 million) in response to the global economic crisis. He noted that Zambia outperformed its neighbors during the global economic crisis in spite of a steep downturn in the price of its main export, copper, from USD 8,985 per metric ton in July 2008 to USD 2,811 in December 2008. He failed to note that Zambia also benefited from factors beyond GRZ' control such as the rebound in copper prices and a healthy rainfall that contributed to a record maize crop.

¶12. (U) Having weathered the worst effects of the global recession, the GRZ remains committed to its macroeconomic policies. Musokotwane stated that the GRZ's 2010 macroeconomic objectives for Zambia's economy are to exceed five percent growth (unchanged); reduce inflation to eight percent by the end of 2010 (from the targeted ten percent in 2009); and limit domestic borrowing to two percent of GDP (instead of three percent in 2009). He said that Zambia would continue to strive to achieve the Millennium Development Goals by 2015 and become a middle-income country by 2030. However, the proposed budget does not appear to offer much hope that much progress will be made in 2010 toward achieving these longer-term goals.

STOP BICKERING AND DELIVER

¶13. (U) Musokotwane concluded his speech by chiding unnamed opponents of the government for imparting the youth with "negative attitudes," and encouraged them to stop talking and deliver" -- attempting to inject an uninspiring budget speech

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with a message of hope. Musokotwane stated that "the attainment of a resilient and diversified economy with the capacity for sustained and rapid growth is not an option...it is an article of faith. Many of our people spend lots of their time on negative thoughts. Unfortunately, this does nothing to solve our development problems. If we the adults tend to project predominantly negative thoughts on them (the youth), then we should face the real possibility that many of our offspring will inherit the same disposition in life -- to complain, to talk, but then achieve nothing tangible. What the government is saying is...stop contaminating the minds of the young ones with negative attitudes." He cited the GRZ' budget commitments as "tangible" proof of its "commitment to stop talking and deliver."

COMMENT

¶14. (C) COMMENT: The proposed 2010 budget reiterates the GRZ's plan to take steps toward promoting economic growth through competitiveness and diversification. Nevertheless, budget allocations do not reflect the GRZ' stated economic priorities. The GRZ does not make clear how increasing defense, public order and safety spending will help it achieve its stated macroeconomic objectives. At the same time, its investment in economic affairs continues to support market distorting agriculture programs and does not lead to the conclusion that this budget will foster sustained economic growth. Despite Musokotwane's rhetoric, the GRZ has a poor history of executing effectively its budgets and promises far more than it delivers. It has had some incremental successes in agriculture and infrastructure development, but its failures to capitalize on preferred market opportunities such as tourism (down 23 percent since 2008) and livestock leave it unlikely that this budget will achieve much more than the last. END COMMENT.
BOOTH